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UNCLAS SECTION 01 OF 05 SEOUL 001194

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SIPDIS

E.O. 12958: N/A

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SUBJECT: NORTH KOREA ECONOMIC BRIEFING - JULY 2009

¶1. (U) This cable is sensitive but unclassified and not/not intended for Internet distribution.

In This Issue

- North Korea Begins Closing General Markets
- DPRK Sets Up Environmental Protection Plan
- DPRK Establishes a Charity Branch in Beijing
- DPRK Engages in Disaster Preparation
- DPRK Reportedly Prints Counterfeit U.S. Bonds
- Japan Bans All Exports to DPRK
- DPRK Explores International Advertising Market
- DPRK-Chinese Border Controls Tightened
- DPRK-Taiwan Trade Surges in the 1st Quarter of 2009
- DPRK-China Railway Tour Suspended
- DPRK Expected to Attend Shanghai Expo in 2010
- Russia Works to Improve DPRK Brewery
- KIC Firms Seek Compensation
- DPRK Cigarettes to be Sold in ROK
- Inter-Korean Trade & KIC Production Fell in May
- WFP: DPRK Food Situation 'Critical'
- ROK Aid to the DPRK Drops 60 Percent (January-May)
- ROKG Urged to Lift Restrictions on Civic Groups

Domestic Economy

¶2. (SBU) North Korea Begins Closing General Markets:

According to the June 23 issue of North Korea Today, a newsletter released by ROK-based civic group Good Friends, Pyongyang's main outdoor market has been closed since the second half of last year. The closing of this market, which has in the past functioned as the DPRK's largest wholesale market, is seen by many as an attempt to encourage the use of local agricultural markets. DPRK officials have announced on several occasions over the past year that they intend to convert the nation's general markets into more limited markets for agricultural goods, but implementation has been delayed.

Regional authorities have been ordered to increase the importation of Chinese goods in order to allay concerns that the closing of markets will result in shortages. In the past, DPRK authorities' attempts to enforce market restrictions have led to clashes between traders and the police. A DPRK official was quoted as saying, "The Workers Party must unconditionally get rid of markets. On the inside, however, they see that there will be huge public opposition [to the measures] if they only use force, so this time they decided

to combine it with conciliatory policies." The newsletter added that DPRK authorities will keep markets open while working towards their goal of reintroducing pre-2003 market restrictions by the end of 2009.

¶3. (SBU) DPRK Sets Up Environmental Protection Plan:

Choson Sinbo, a pro-DPRK newspaper published in Japan, reported in an article on June 4 that the DPRK is drafting its first long-term environmental policy plan, which is slated to be made public by the end of the year. The article quotes the DPRK's Research Institute for Environmental Protection as saying that the plan would "cohesively combine economic development and environmental protection." According to the article, the institute will conduct a comprehensive environmental survey which will be used to establish a long-term environment protection plan that does not interfere with the nation's economic development and urban reconstruction.

¶4. (SBU) DPRK Establishes a Charity Branch in Beijing:

Chosun Sinbo reported on June 18 that the DPRK has recently opened a branch office of its Federation for the Protection of the Disabled in Beijing. The office's responsibilities include fundraising and promoting the DPRK's effort to better the lives of the nation's disabled. It will also work with Chinese organizations to set up a joint fund. Kim Yong-chol, vice president of the organization, has said that the DPRK may invite international donors to tour the nation's treatment centers for the disabled. The DPRK enacted a law in 2003 to protect the disabled. The DPRK has developed programs to teach the blind and the deaf sports and art and has built a

SEOUL 00001194 002 OF 005

rehabilitation center in Pyongyang.

¶5. (SBU) DPRK Engages in Disaster Preparation:

Chosun Sinbo reported in a June 23 article that the DPRK's Hydro-meteorological Service is preparing for natural disasters in light of forecasted droughts and cold weather along the nation's coasts this summer. Kim Mun-wuk, a senior DPRK official, was quoted as saying, "torrential rains are forecast from the middle of July and August across the country, later than usual." The DPRK plans to organize provisional anti-flood committees to devise comprehensive measures to help citizens cope with heavy rains and to prevent flooding. According to the article, such measures will include the establishment of a flashflood warning system, building new water reservoirs for farms, preparing irrigation systems, and launching a campaign to prevent the spread of waterborne insects. Authorities are also adopting measures to keep the cold weather from leading to a late harvest.

¶6. (SBU) DPRK Reportedly Prints Counterfeit U.S. Bonds:

According to an article in the June 24 issue of the Italian newspaper Il Messaggero, the DPRK is involved in a case related to the printing of USD 134.5 billion worth of counterfeit U.S. bonds. Earlier in June, two Japanese nationals were caught in Italy allegedly trying to smuggle the bonds into Switzerland. The article suggested that, because the two accused are DPRK agents and are believed to have sought to purchase weapons, the bonds may have been printed in the DPRK.

Foreign Trade and Investment

¶7. (SBU) Japan Bans All Exports to DPRK:

Japan's Trade Ministry said on June 16 that the Japanese government has decided to ban all exports to the DPRK as punishment for its recent nuclear and missile tests. This ban will come into effect on April 13, 2010. The Japanese Prime Minister Taro Aso earlier voiced his support for these new sanctions. Japan had already banned DPRK imports, blocked DPRK ships from entering Japanese ports, and has implemented a travel ban; preventing Japanese nationals from travelling to the DPRK (except in special cases). Specifically,

Japan had already banned exportation of 24 luxury goods to the DPRK, including caviar, fatty tuna, and high-end consumer electronics.

18. (SBU) DPRK Explores International Advertising Market:

The July edition of Choguk ("my nation"), a monthly magazine published in Japan by the pro-DPRK Chosun Sinbo, indicates that the DPRK's state-owned Korea Advertisement Company is gearing up to explore the international advertising market. The company, which was founded in 2006, plans to take part in international trade fairs and investment seminars, which will be held in Russia, Germany, Italy, and China. The company's president, Kim Hak, said that it also plans to participate in business exchange programs with international advertising organizations such as the Chinese Advertisement Association.

19. (SBU) DPRK-Chinese Border Controls Tightened:

According to an article in the July 7 edition of the Chinese Nanfang Daily, border trade between China and the DPRK has contracted as a result of China's tightening of the DPRK-China border following the DPRK's nuclear test and missile launches. Chinese traders who do business with the DPRK were quoted as saying that personnel, trucks, and drivers who cross the DPRK-China border are now being strictly controlled by Chinese authorities. Since the implementation of stricter border control, the daily number of trucks crossing the border between the Chinese city of Dandong and the North Korean city of Sinuiju has dropped to less than ten trucks a day, a fall from the more than 100 trucks a day that used to cross the border. In addition to the decline in cross border trade between the two countries, the DPRK won has depreciated from 3,200 DPRK won per dollar to 4,000 DPRK won per dollar. The article suggests that the depreciation of the DPRK won may be due to the fact that the nation

SEOUL 00001194 003 OF 005

is having difficulty securing foreign currencies.

10. (SBU) DPRK-Taiwan Trade Surges in the 1st Quarter of 2009:

The Korea Trade and Investment Promotion Agency (KOTRA) reported on July 7 that bilateral trade between the DPRK and Taiwan rose to USD 9.1 million in the first quarter of 2009, a 77 percent rise over the same period latest year. DPRK exports to Taiwan rose to USD 3.73 million in the first quarter, a 216 percent rise over the same period last year. DPRK exports to Taiwan included anthracite coal, a small cargo ship, and red ginseng. The DPRK imported USD 5.4 million worth of Taiwanese goods in the first quarter of 2009, a 36 percent rise over the same period last year. These imports included USD 3.2 million worth of monosodium glutamate, artificial flavorings, polyester staple fiber, refined soy bean oil, and wheat flour.

11. (SBU) DPRK-China Railway Tour Suspended:

Chinese newspapers reported on July 7, the opening of a railway between China and the DPRK has been delayed. The railway, which had been scheduled to open this past May and will run between the Chinese town of Tumen and the North Korean towns of Namyang, Chungjin, and Chilbo, was agreed to by the Tumen City government and the provincial government of Hamgyeong and will be used exclusively for cross border tourism. The Tumen City government has not yet explained what has prompted this delay. However, tour agency representatives have said that the project has been on hold since the DPRK conducted a nuclear test and began launching missiles earlier this year.

12. (SBU) DPRK Expected to Attend Shanghai Expo in 2010:

KOTRA reported on June 20 that the DPRK is expected to participate in the 2010 World Expo in Shanghai. The report suggests that the DPRK has decided to attend the expo in an attempt to strengthen its international image. The DPRK is expected to occupy a space of 1,000 square-meters at the exhibition. The theme of the DPRK's booth is not yet known.

¶13. (SBU) Russia Works to Improve DPRK Brewery:

According to an article published in the Chosun Sinbo on May 17, Baltika Beer Brewery, Russia's leading beer brewery, plans to work with the DPRK's Taedonggang Beer Brewery. Oleg Alekhin, CEO of Baltika's office in China is quoted as saying, "Baltika Beer Brewery will further cooperate with the DPRK's beer factories to help them in enhancing brewery technology." The article goes on to say that since 2002 the Taedonggang Beer Brewery has been sending technicians to the Baltika Beer Brewery to learn modern brewing techniques. The Baltika Beer Brewery has been exporting its beer to the DPRK since ¶2007.

Inter-Korean Economic Cooperation

¶14. (SBU) KIC Firms Seek Compensation:

Donga Ilbo reported on June 26 that around 20 ROK companies in the Kaesong Industrial Complex (KIC), most of which have only recently started operations on the compound, are preparing to file lawsuits in an effort to seek compensation from the ROK government for losses they suffered while operating in the KIC. The DPRK's periodic closing of the border and the ROKG's restrictions on travel and transportation of raw materials to the DPRK have, according to these companies, resulted in huge losses. The MOU announced on June 25 that it was mulling plans to provide companies operating in the KIC with emergency funds to help avoid a pullout. MOU spokesperson Chun Hae-sung said, "We are still examining whether we have sufficient revenue. We are also reviewing whether it would be fair to offer financial aid to certain companies."

¶15. (SBU) DPRK Cigarettes to be Sold in ROK:

Yonhap News Agency reported on June 25 that a ROK company, M2C Paeksan, is set to import 175,000 packs of Paeksan cigarettes, cigarettes produced by the DPRK's Pyongyang Paeksan Tobacco

SEOUL 00001194 004 OF 005

Joint-Venture Company. The North Korean cigarettes will enter the ROK market this July. This will be the first time that cigarettes produced by a DPRK firm will be on sale in the ROK. Pyongyang Paeksan Tobacco Joint-Venture Company is a DPRK-Chinese joint-venture. The cigarettes are expected to be sold at 2,300 KRW a pack. If the cigarettes prove to be popular, the ROK importer may decide to import more in the future. In 2000, the ROK's Korea Tobacco and Ginseng Corporation imported DPRK cigarettes under a temporary contract based on processing-on-commission. Though produced in the DPRK, these cigarettes were manufactured by a ROK firm using ROK technology. These cigarettes have since been discontinued.

¶16. (SBU) Inter-Korean Trade & KIC Production Fell in May:

According to data recently collected by the MOU, inter-Korean trade fell to USD 107 million in May, a 28 percent year-on-year decline. This figure represents the ninth consecutive month of decline. ROK exports to the DPRK fell to USD 42.3 million in May, a 56 percent year-on-year decline. ROK imports of DPRK goods fell to USD 65 million, a 16.4 percent decline. The KIC experienced an 18.4 percent year-on-year fall in production. This drop can be attributed to the DPRK's restrictions on border crossings and to the DPRK's demand for wage hikes for KIC laborers and exorbitant fees for the use of KIC land. The ROK shipped no aid to the DPRK in May.

The following table shows a breakdown of inter-Korean trade in the month of May:

Inter-Korean Trade in May 2009
(Source: Ministry of Unification)

Commercial Transactions

South Exports To North	South Imports from North	Total
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General Trading	667(-85.3)	20,902(-38.5)	21,569(-44)
Processing-on Commission (POC)	8,057(-99)	12,932(-0.8)	20,989(-16.5)
KIC Project	30,300(-99)	28,139(9)	58,439(18.4)
Mt.Kumgang Tourism Project	211(-98.2)	52(-98.5)	263(-93.2)
Other Economic Projects	1,790(-99)	2,573(223)	4,327(89)
Light Industry Cooperation	0	0	0
Subtotal	41,025(-46)	64,562(-16.4)	105,587(-31)

Non-Commercial Transactions

	South Exports To North	South Imports from North	Total
NGO Aid	1,245(-85)	0	1,245(-85)
Government Aid	0(-242)	0	0(-242)
Social,Cultural Projects	0(-99)	0(-1)	0(-100)
Energy Aid (HFO)	0(-11,128)	0(0)	0(-11,128)
Subtotal	1,245(-100)	0(-100)	1,245(-94)
TOTAL	42,270(-56)	64,562(-16.4)	106,832(-38.1)

Note: Figures in parenthesis indicate the comparison from May 2008

Foreign Aid

SEOUL 00001194 005 OF 005

¶17. (SBU) WFP: DPRK Food Situation 'Critical':

ROK media outlets reported that the World Food Program (WFP) announced on July 2 that the DPRK's recent actions had led to a drying up of international aid and critical food shortages for women and children. The WFP noted that it had received just 15 percent of the USD 504 million it needs and that 6.2 million North Koreans are at risk. Torben Due, the WFP's representative in the DPRK, has said, "We have not really received any contributions after the North's nuclear test was conducted." As a result, WFP has curtailed food distribution from 50,000 metric tons a month to 4,500 metric tons a month. Due added that DPRK authorities ordered WFP to reduce operations and also forbade WFP from using Korean speaking employees in the DPRK. WFP was forced to cut the number of counties in which it operates from 131 to 57 in June of this year. WFP and the Food and Agriculture Organization (FAO) estimated that last year over 8.7 million North Koreans depended on food aid. According to a recently released FAO Food Outlook report, the DPRK's grain output for this year will be around 5.2 million metric tons, an improvement over the 4.21 million metric tons of grain the WFP estimates the DPRK produced in 2008.

¶18. (SBU) ROK Aid to the DPRK Drops 60 Percent (January-May):

According to a report issued by the Ministry of Unification (MOU) on June 24, ROKG and ROK civic group aid to the DPRK fell to USD 15.2 million between January and May, a 60 percent year-on-year drop. Aid shipments fell from USD 8.36 million in May of 2008 to USD 1.24 million this past May, an 85 percent year-on-year decline. A MOU official attributed this decline to the DPRK's continued nuclear and

missile threats, which have had a chilling effect on inter-Korean relations.

¶19. (SBU) ROKG Urged to Lift Restrictions on Civic Groups:

ROK media outlets reported June 26 that a group of 56 ROK civic groups are urging the ROKG to immediately lift the ban on travel to the DPRK, relax restrictions on exports to the DPRK, and allow them to ship humanitarian aid to the DPRK. The ROKG banned such aid following the early April DPRK missile launch. Lim Jong-chul, a spokesperson for ROK NGO Medical Aid for Children said, "We were close to completing construction of the Mangyeongdae General Hospital for Children in Pyongyang, but without the timely delivery of necessary construction materials and pipelines, the building could collapse during the summer rainy season." The Korea NGO Council for Cooperation with North Korea (KNCK), a coalition of various aid agencies, has said that around 2 billion KRW (USD 1.6 million) worth of medical equipments and construction materials is sitting in the ROK port city of Incheon. Food aid, though not banned, has been packed together with medical equipment and construction material and is, therefore, at risk of spoiling as it sits at the port. The ROKG currently allows shipments of wheat flour, rice, and certain medical supplies for children to the DPRK, but the shipment of construction materials and agro-machinery is strictly prohibited.

STEPHENNS